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Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta

RESOURCES LTD.



**Annual
Report
1995**

Corporate Profile

Callisto Resources Ltd. is a junior oil & gas company with operations in Alberta & Saskatchewan.

The Company will continue to identify potential acquisition, development and corporate opportunities in profitable oil and gas prospects in Western Canada.

Callisto's common shares are listed for trading on the Alberta Stock Exchange under the trading symbol "CLB".

Annual Meeting

The Annual General Meeting of the shareholders of Callisto Resources Ltd. will be held on May 15, 1996, at 3:00 p.m. in the Plaza Room of the Metropolitan Centre, 333 Fourth Avenue S. W., Calgary, Alberta. Shareholders unable to attend are encouraged to complete and return the accompanying form of Proxy.

Table of Contents

Highlights	1
Report to Shareholders	1
Operations	2
Reserves	4
Management's Discussion and Analysis	5
Financial Statements	7
Corporate Information	Inside Back Cover

Highlights

1995

- Drilled successful dual zone gas well at Fort Pitt (100% Working Interest).
- Shot 10 miles of seismic on company lands (100% Working Interest).
- Year end production of 2,500 Mcf/d (225% increase from 1994).
- Raised \$249,000 through a Private Placement of 830,000 Flow Through Shares.
- Maintained an option to reacquire 50% of Fort Pitt Compressor from Limited Partnership.
- Proved reserves of 4.70 BCF at year-end.

Report to Shareholders

Callisto is pleased to present its annual report for the year ended December 31, 1995. This is the second annual report of the Company subsequent to the beginning of operations in the second quarter of 1994. Financial results reflect the first full year of activity following Callisto's acquisition of a land and production base at Fort Pitt, Saskatchewan. Results expressed in this report are for the 12 months ending December 31, 1995.

During 1995, the primary objective was to increase the production rates and to put proved non-producing reserves on production. Callisto drilled 2 gross wells during the year, resulting in 2 net gas wells. The average gas price received in 1995 was \$1.15/mcf, well below the average price of \$1.97/mcf for 1994. This drop in price hampered our ability to expand into new areas during the fiscal year.

Gas contracts were renewed commencing November 1, 1995 with an average price for the ensuing 12 months expected to average significantly above the prices received in 1995. With a strong price surge during the winter heating season, and large withdrawals from storage, the Company feels the overall market for natural gas will improve during the coming year. Coupled with higher gas production from Fort Pitt, the Company is encouraged to continue to pursue natural gas projects.

Continued difficulty for smaller producers to attract investment has hindered their ability to capitalize on opportunities. With renewed optimism for improving commodity prices, and interest in the junior oil and gas sector the Company will be bringing projects initiated during 1995 to the forefront.

The Company operated its first Alberta well during the first quarter of 1996. This potential oil well, at Long Coulee, is waiting further production testing after spring break-up. Additional drilling opportunities in the area, and an exploration well north of Edmonton, during the second quarter of 1996, emphasize Callisto's commitment to develop new core areas.

Callisto's strategy is to remain focused on new areas where the Company can participate in Joint Ventures and where assets with significantly higher reserve densities can be acquired. The majority of the new exploration and acquisition opportunities the company is pursuing are concentrated in the north Central part of Alberta and the Peace River Arch.

Operations

Fort Pitt, Saskatchewan



Fort Pitt continues to be the primary producing area for the company. The 11-27-55-25W3 dual gaswell drilled in December 1994, was tied-in and placed on production in March 1995. This well produced at an average rate of 650 mcf/d through the remainder of 1995. A seismic program during the winter of 1994/95 identified several additional locations.

Prompted by the success at 11-27, the 7-5-56-25W3 well was drilled in the first quarter of 1995. While gas was encountered in both the Colony and Second White Specks, high water production reduced the Company's netback and the well was shut-in until gas prices improve.

A second well at 11-16-55-25W3 was drilled in the third quarter of 1995. It was completed as a dual St. Walburg/Colony gaswell and brought on production in October at a combined rate of 750 mcf/d. This raised the total production to 2,500 mcf/d.

Seismic acquired during the winter of 1994/95 identified several leads and in August additional lands were purchased. Confirmation seismic was acquired during the fourth quarter to further define leads from the initial seismic survey. Up to three additional locations have been confirmed.

Drilling of these locations will be undertaken, as required, to maintain current production levels at Fort Pitt.

Long Coulee, Alberta



During the fourth quarter of 1995 Callisto committed to its first operated drilling venture on a light gravity oil prospect in the Long Coulee area of Southern Alberta. Marine bar sands of the Glauconite formation producing oil on adjacent lands from a depth of 1500 metres, are the main prospect.

Rig availability postponed the drilling until the first quarter of 1996. By drilling the well, at 16-9-17-22W4M, the company has earned a 56.67% Working Interest in 640 acres.

Road bans prematurely ended production testing which are sufficiently encouraging to warrant further evaluation tests as soon as possible. If successful, additional locations on the lands have been identified.

Reserves

A reserves evaluation conducted by independent engineering consultants, Brusset Consultants is summarized in the following tables and represents the reserves, and the value of those reserves, on December 31, 1995.

Reserves

		1995 (MMcf)		1994 (MMcf)	
		Gross	Net*	Gross	Net*
Proved					
	Developed Producing	4,702	3,467	2,398	1,589
	Undeveloped	-	-	2,640	1,949
Total Proved		4,702	3,467	5,038	3,538
Probable Additional (Risked at 50%)		488	296	500	414
Total Proved Plus Probable		5,190	3,763	5,538	3,952

* After Royalties

Reserves Reconciliation

	Reserves (MMcf)		Total
	Proven	Probable	
December 31, 1994	5,038	500	5,538
Production	(720)	-	(720)
Revisions	384	(12)	372
December 31, 1995	4,702	488	5,190

Reserve Values

	Present Worth Before Income Taxes M\$ Discounted		
	At 0 %	At 15%	At 20%
Proved	4,164	2,422	2,106
Probable Additional (Risked at 50%)	522	278	230
Total Proved Plus Probable	4,686	2,700	2,336

The present worth values of the net reserves are presented before taxes, but after deduction of all royalties, estimated capital and operating costs. The net revenues, before income taxes, are summarized for the proved and probable additional reserves.

Management's Discussion and Analysis

Results of Operations

Gas revenues for the twelve months of operations during the fiscal year 1995 were \$832,110, more than double the \$403,874 in 1994. Production expenses, transportation, processing, royalties and taxes totaled \$601,371. Net revenue from processing fees totaled \$35,488. Other revenues of \$1,868 were earned from interest on cash reserves generated from the issue of shares. Depletion and depreciation expense for the year was \$226,812. A higher depletion and depreciation expense resulted from the increased production of the Fort Pitt reserves as a consequence of moving a significant portion of the reserves from proven non-producing to the proven producing category.

As a result of the above items the company had an operating income of \$266,227 and a net loss of \$160,220 for 1995.

Weak gas prices seriously affected the netbacks the Company received. Fixed costs per unit of production will not significantly change as the price of gas continues to improve. A \$0.30 increase in gas price will increase netbacks by 50%.

Interest expense of \$36,334 was the cost of the bank debt incurred as part of the acquisition of the Fort Pitt properties. Costs associated with fund-raising and legal costs of the property and gas processing facilities resulted in general and administrative charges of \$128,169.

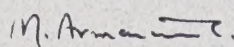
Capital expenditures of \$946,030 were directed towards Exploration and Development activity (\$837,780); lease acquisitions and office equipment costs (\$38,000), and capitalized general and administrative charges (\$70,250).

Liquidity and Capital Resources

Shareholder's equity at December 31, 1995 was \$1,004,295. After capital expenditures of \$946,030 Callisto's cash position at December 31, 1995 was (\$294,326). Capital expenditures were incurred on the Fort Pitt property and on initial expenditures to enable the company to establish operations in Alberta. Additional capital was used to fund drilling, exploration, and production facilities in the first quarter of 1996.

During the first half of 1996 the company will be looking at joint venture opportunities, and the possibility of an equity offering to accelerate the drilling and acquisition opportunities in the focus areas. Renewed interest in the junior oil and gas producers by the investment community will enable the company to raise the additional capital required to continue to establish a land and production base in the focus areas.

We appreciate the continued support of our shareholders during this period.



Mark Armanious, P. Geol.
President & CEO

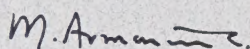
April 1, 1996

Management's Report to Shareholders

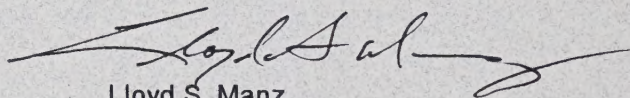
The accompanying financial statements of Callisto Resources Ltd. are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada and with policies described in the notes to the financial statements.

Integrity of the financial statements is management's responsibility. Where appropriate, management has made informed judgments and estimates for transactions affecting the current accounting period which cannot be finalized with certainty at the balance sheet date. Internal policies and procedures maintained by management provide reasonable assurance that the assets are safeguarded from loss or unauthorized use, and financial records are properly maintained.

The external auditors conducted an independent examination of corporate and accounting records in accordance with generally accepted auditing standards to express their opinion on the financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. This responsibility is exercised through the Audit Committee of the Board. The Audit Committee has reviewed the financial statements and has reported to the Board of Directors thereon. The Board of Directors has approved the financial statements for issuance to the shareholders.



Mark Armanious
President, & Chief Financial Officer



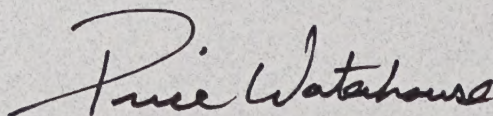
Lloyd S. Manz
Vice-President, Exploration & Land

Auditors' Report - To the Shareholders of Callisto Resources Ltd.

We have audited the balance sheet of Callisto Resources Ltd. as at December 31, 1995 and 1994 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

February 09, 1996

Callisto Resources Ltd.

Balance Sheet

	December 31	
	1995	1994
Assets		
Current assets		
Cash	\$ 5,674	\$ 97,778
Term deposit	-	400,000
Accounts receivable	110,662	82,570
Prepaid expenses	693	1,381
	<u>117,030</u>	<u>581,729</u>
Property, plant and equipment (Note 2)	1,478,171	1,068,513
Incorporation costs	808	808
	<u>\$1,596,008</u>	<u>\$1,651,050</u>
Liabilities		
Current liabilities		
Bank indebtedness (Note 3)	\$ 300,000	\$ -
Accounts payable	234,713	298,205
Current portion of long-term debt	-	96,000
	<u>534,713</u>	<u>394,205</u>
Long-term debt (Note 4)	-	206,000
Reserve for future site restoration	57,000	20,000
Shareholders' Equity		
Share capital (Note 5)	1,352,083	1,218,413
Deficit	<u>(347,788)</u>	<u>(187,568)</u>
	<u>1,004,295</u>	<u>1,030,845</u>
	<u>\$1,596,008</u>	<u>\$1,651,050</u>

Approved by the Board

M. Armanante

Director

[Signature]

Director

Callisto Resources Ltd.

Statement of Operations and Deficit

	Year ended December 31	
	1995	1994
Operating income		
Petroleum and natural gas sales	\$832,110	\$ 403,874
Processing fee income	35,488	-
Royalties	(131,219)	(98,985)
Production expenses	<u>(470,152)</u>	<u>(164,614)</u>
	266,227	140,275
Interest income	<u>1,868</u>	<u>1,282</u>
	268,095	141,557
Expenses		
General and administrative	128,169	143,490
Interest on long-term debt	7,789	21,355
Interest	28,545	-
Depletion and depreciation	226,812	140,374
Provision for site restoration	<u>37,000</u>	<u>20,000</u>
	<u>428,315</u>	<u>325,219</u>
Loss for the year (Note 5)	160,220	183,663
Deficit, beginning of year	<u>187,568</u>	<u>3,906</u>
Deficit, end of year	<u>\$347,788</u>	<u>\$ 187,568</u>
Loss per share	<u>\$ 0.02</u>	<u>\$ 0.03</u>

Callisto Resources Ltd.

Statement of Changes in Financial Position

	Year ended December 31	
	1995	1994
Operating activities		
Loss for the year	\$ (160,220)	\$ (183,662)
Add: Items not affecting cash		
Depletion and depreciation	226,812	140,374
Provision for site restoration	37,000	20,000
Common shares issued for consulting services	-	59,850
Funds flow from operations	103,592	36,562
Change in non-cash working capital	(90,896)	216,357
	12,696	252,919
Financing activities		
Increase in long-term debt	-	302,000
Repayment of long-term debt	(302,000)	-
Net proceeds from issue of shares and warrants	243,230	1,272,274
	(58,770)	1,574,274
Investing activities		
Additions to property, plant and equipment	(946,030)	(1,510,387)
Proceeds of disposition	200,000	-
	(746,030)	(,510,387)
Increase (decrease) in cash *	(792,104)	316,806
Cash, beginning of year	497,778	180,972
Cash, end of year	\$ (294,326)	\$ 497,778

* Cash includes term deposits and is net of bank indebtedness.

Callisto Resources Ltd.

Notes to Financial Statements December 31, 1995

1. Significant accounting policies

Petroleum and natural gas properties

The Company follows the full cost method of accounting for oil and gas expenditures. Capitalized costs include land acquisition, geological and geophysical expenses and costs of drilling both productive and non-productive wells. Capitalized costs are depleted by the unit-of-production method based on the Company's share of gross proven reserves of oil and gas as determined by an independent reserve report, with products being converted to a common unit of measure based on energy content. Petroleum and natural gas properties are subject to a ceiling test under which their carrying value is limited to the future net revenue (undiscounted) from production of estimated proven reserves, based on year end prices, plus the unimpaired costs of non-producing properties less estimated future administration costs and income taxes.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

Earnings per share

Earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the respective fiscal years. Fully diluted earnings per share are anti-dilutive and therefore are not disclosed.

Future site restoration

Estimated future removal and site restoration costs, net of expected recoveries, are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. Removal and site restoration expenditures will be charged to the accumulated provision account as incurred.

2. Property, plant and equipment

	1995	1994
Petroleum and natural gas properties and equipment at cost	\$2,256,417	\$1,510,387
Less		
Accumulated depletion and depreciation	(367,186)	(140,374)
Estimated cost of renounced tax deductions	(411,060)	(301,500)
	<u>\$1,478,171</u>	<u>\$1,068,513</u>

Property, plant and equipment includes capitalized general and administrative expenses totalling \$70,250.

Property plant and equipment with a net book value of \$354,500 has no cost basis for income tax purposes.

Callisto Resources Ltd.

Notes to Financial Statements December 31, 1995

3. Bank indebtedness

The demand loan bears interest at prime rate plus 1.25% and is secured by a \$1,000,000 first fixed and floating charge debenture, a general assignment of book debts and registered assignments under Section 426 of the Bank Act over producing oil and gas properties.

4. Long-term debt

	1995	1994
National Bank of Canada bank loan		
The demand loan bears interest at prime rate plus 1.50% and is payable in monthly principal payments of \$8,000 plus interest and is secured by a general security agreement, a general assignment of book debts and an undertaking to pledge oil and gas assets to the bank	\$ -	\$302,000
Less: Current portion	-	96,000
	<u>\$ -</u>	<u>\$206,000</u>

In April 1995 the long-term debt was refinanced by the demand loan (Note 3).

5. Share capital

(a) Authorized

- (i) Unlimited number of Common Voting Shares without nominal or par value.
- (ii) Unlimited number of First Preferred Shares.
- (iii) Unlimited number of Second Preferred Shares.

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

(b) Issued

	1995		1994	
	Number of shares issued	Amount	Number of shares issued	Amount
Beginning of year	7,973,111	\$1,218,413	3,700,000	\$ 187,789
Common shares issued for cash	-	-	2,176,000	620,800
Common shares issued for consulting services	-	-	171,000	59,850
Share issue costs	-	(5,770)	-	(33,776)
Flow-through common shares issued for cash	830,000	249,000	1,926,111	685,250
Estimated cost of renounced tax deductions	-	(109,560)	-	(301,500)
End of year	<u>8,803,111</u>	<u>\$1,352,083</u>	<u>7,973,111</u>	<u>\$1,218,413</u>

Callisto Resources Ltd.

Notes to Financial Statements December 31, 1995

In March 1994 the Company issued 2,016,000 common shares with 1,008,000 warrants attached through a private placement for proceeds totalling \$604,800. Each warrant entitles the holder to purchase one common share at \$0.50 per share on or before June 30, 1995.

In July and August 1994, the Company issued 160,000 common shares through the exercise of outstanding stock options for proceeds totalling \$16,000.

In November and December 1994, the Company issued 1,926,111 flow-through shares through a private placement for proceeds totalling \$685,250.

During 1994, the Company issued 171,000 common shares to its directors for a total value of \$59,850. The shares were issued for consulting services rendered to the Company in conjunction with the Company's normal business activities.

In September 1995, the Company issued 830,000 flow-through shares through a private placement for proceeds totalling \$249,000.

(c) Stock options

The Corporation has established a stock option plan for the benefit of directors, employees and consultants of the Corporation. During 1994, 571,600 options were granted to purchase an aggregate of 571,600 Common shares. 370,000 of the options granted may be exercised at a price of \$0.10 per share and expire July 28, 1998. The remaining 201,600 options granted may be exercised at a price of \$0.30 per share and expire April 25, 1999.

6. Income taxes

The Company has losses carried forward for income tax purposes which may be applied to reduce taxable income of future years. The losses, if unutilized expire as follows:

2000	\$ 6,363
2001	<u>27,014</u>
	<u>\$33,377</u>

In addition, the Company has tax pool balances totalling \$1,350,790. Due to the effects of the flow-through share issues and other differences not impacting the statement of operations, the net book value of the Company's assets exceeds these available future income tax deductions and losses.

Corporate Information

Head Office

610, 435 - 4th Avenue S.W.,
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Tel: (403) 263-0433
Fax: (403) 263-1723

Board of Directors

Mark Armanious*, P. Geol.
President & Chief Executive Officer
Callisto Resources Ltd.
Calgary, Alberta

J. Gordon Ironside*
President & Chief Financial Officer
Blue Range Resource Corporation
Calgary, Alberta

Lloyd S. Manz, B. Sc. (Eng.)
Vice-President, Exploration & Land
Callisto Resources Ltd.
Calgary, Alberta

V. Freeman Maxwell*, P. Eng.
Callisto Resources Ltd.
Calgary, Alberta

* Member of the Audit Committee

Officers and Key Personnel

Mark Armanious, P. Geol.
President & Chief Executive Officer

Lloyd S. Manz, B. Sc. (Eng.)
Vice-President, Exploration & Land

V. Freeman Maxwell, P. Eng.

Auditors

Price Waterhouse
Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Evaluation Engineers

Brusset Consultants
Calgary, Alberta

Transfer Agent and Registrar

Montreal Trust
Calgary, Alberta

Legal Council

Carscallen Lockwood Cormie
Calgary, Alberta

Stock Listing

The Alberta Stock Exchange
Symbol "CLB"

